



ACQUISITION AND  
TECHNOLOGY

## THE UNDER SECRETARY OF DEFENSE

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WASHINGTON, DC 20301 3010

APR - 3 2000

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
CHAIRMAN OF THE JOINT CHIEFS OF STAFF  
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DIRECTOR, DEFENSE RESEARCH AND ENGINEERING  
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DIRECTOR, ADMINISTRATION AND MANAGEMENT  
DIRECTORS OF THE DEFENSE AGENCIES  
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Department of Defense Strategic and Competitive Sourcing Programs  
Interim Guidance

Competitive Sourcing remains a major pillar of the Defense Reform Initiative and the Department's business strategy. We must continue to demonstrate that significant cost savings and performance enhancements may be obtained through a commitment to a fair but aggressive implementation of this program.

Our success will depend on a comprehensive review of a wide variety of functions or activities to determine where cost efficiencies may be obtained. We must do everything possible to ensure fairness in this process if we are to foster creation of competitive most efficient organizations (MEOs) and encourage the participation of quality private sector businesses. The attached interim guidance is a product of extensive effort by the OSD A-76 Integrated Process Team (IPT) and is a first step to achieve a fair and consistent approach across the Department.

Your effort in response to Defense Reform Initiative #20 (Review of Inherently Governmental Functions) was also a good step in identifying commercial activities in the Department that are available for competition. The review identified a number of inconsistencies across the Department and we must continue to resolve these inconsistencies in our Inherently Governmental/Commercial Activity IPT and in our future inventories. The recent inventory, in response to the Federal Activities Inventory Reform (FAIR) Act, went somewhat further in this direction. Accurate inventories combined with both a strong Competitive Sourcing Program and a more comprehensive Strategic Sourcing approach are all management tools that Components may use to account for an even greater in-depth review of specific functions or activities. This can lead to better packaging of competitive sourcing and other types of initiatives resulting in optimal savings and efficiencies for the Department.



We have broadened our competitive sourcing approach to include the Strategic Sourcing Program that Components may elect to use to meet or exceed their competitive sourcing goals. Strategic sourcing is another means to achieve even greater savings in all areas across the Department. This is not and should not be interpreted as an avoidance of, alternative to, or a retreat from A-76 cost comparisons. Strategic sourcing builds on existing DoD manpower management programs but requires a more rigorous accounting of manpower. The strategic sourcing approach encompasses all functions or activities that could be reengineered or consolidated regardless of whether they are inherently governmental, military essential or commercial activities—and competition must remain an integral part of this overall strategy. Interim guidance for the Strategic Sourcing Program is provided at Attachment 1. This document is not meant to be all-inclusive, but merely provides the general approach, criteria, and flow chart for the Strategic Sourcing Program.

We must ensure that a consistent approach for our Strategic Sourcing and Competitive Sourcing Programs is incorporated in the Department's policies and procedures. We will work with OUSD(P&R) to institutionalize policies and procedures within the Department by updating DoD Directive 4100.15, *Commercial Activities Program*, and DoD Instruction 4100.33, *Commercial Activities Program Procedures*, as well as developing a DoD Directive and Instruction for the Strategic Sourcing Program. Additionally, we are developing DoD Manuals for A-76 Costing and Performance Measurement for Competitive and Strategic Sourcing.

As an interim measure, we are issuing the attached guidance for selected aspects of the Department's Commercial Activities Program to provide for a consistent and disciplined approach. This guidance is effective immediately and intended to provide a more level playing field by addressing concerns expressed by both Industry and Government employees in recent competitions. Attachments 2 through 5 provide guidance for specific aspects of the A-76 cost comparison process. Additionally, as part of the Competitive Sourcing Program, it may be justifiable to waive an A-76 cost comparison as provided by the OMB Circular A-76 Revised Supplemental Handbook. DoD's procedures for A-76 cost comparison waivers are provided at Attachment 6.

We continue to work other issues that are essential to the success of our Competitive Sourcing and Strategic Sourcing Programs. We strongly believe that the Department must establish a process to track how effectively these programs are progressing towards achieving savings and enhancing performance. This tracking process is addressed in Attachment 7.

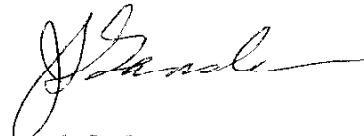
In order to achieve the desired consistency for the Competitive Sourcing Program, we recommend DoD Components employ a Centralized Management approach. This approach should have high-level participants from cross-functional areas in order to have a reasonable and uniform method to select, package and compete functions as well as to use consistent approaches for competition when developing acquisition strategy. Participation of federal employees and their

representatives on this team is also encouraged. We must continue to seek the appropriate balance between centralized management and field responsibility in order to incorporate lessons learned from successful competitions while still encouraging innovative ideas from the field.

It is clear that commanders and directors who use both Strategic and Competitive Sourcing Programs will become more efficient resource managers and leaders in the future. We continue to research ways to encourage commanders and directors to use both of these programs. It is also essential that we continue to encourage the cultural change necessary for the Competitive Sourcing Program to be truly successful. The more we educate through communication, the more receptive everyone will become to the process.

Please continue to work with Mr. Randall A. Yim, the Deputy Under Secretary of Defense (Installations) on our ongoing efforts with these programs. Comments may be provided directly to Mr. Yim, at (703) 697-1771 or to Mrs. Annie Andrews, Assistant Director, Competitive Sourcing and Privatization Office, at (703) 602-2608.

This memorandum and its attachments are effective immediately. The DoD Directive and Instruction governing the Commercial Activities Program shall be updated within 90 days.



J. S. Gansler

Attachments:

1. Strategic Sourcing Program
2. Issuing Solicitations When Performing the A-76 Cost Comparison Process
3. Source Selection Evaluation Board When Performing the A-76 Cost Comparison Process
4. Costing for the A-76 Cost Comparison Process
5. Administrative Appeal Process After Performing an A-76 Cost Comparison
6. Waivers to the A-76 Cost Comparison Process
7. Performance Tracking of Completed Initiatives -- Strategic Sourcing and Competitive Sourcing Programs

cc:

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